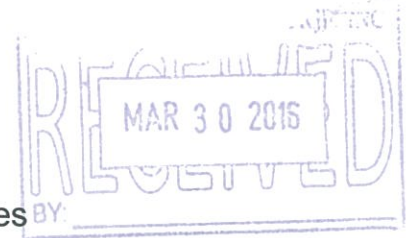




Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines



CORPORATE GOVERNMENT SECTOR
Cluster 1 – Banking and Credit

March 29, 2016

The Board of Directors

LBP Insurance Brokerage, Inc.
12/F SSGH Law Centre Building
105 Paseo de Roxas St.
Legaspi Village, Makati City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of **LBP Insurance Brokerage, Inc. (LIBI)** for the years ended December 31, 2015 and 2014.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of LIBI because collections of insurance premiums pertaining to Employee Salary Loans of cooperative-borrowers, which were booked temporarily as Accounts Payable have accumulated to P22.982 million as of December 31, 2015 and remained outstanding for over 30 days to over one year due to the lack of details on insurance premiums remitted by the LBP Lending Centers, thus, the Accounts Receivable-Trade, Accounts Payable and related accounts were overstated by a total of P22.982 million. Moreover, the auditor expressed an unmodified opinion on the fairness of presentation on the financial statements for the year ended December 31, 2014.

For the above audit observation which caused the issuance of a qualified opinion, we recommended that Management:

- a. Request the concerned LBP Lending Centers to require the cooperative-borrowers to provide the details of premium payments as basis for recording to the proper accounts and accordingly adjust the affected accounts in the books; and
- b. Establish procedures to ensure the correct recording of payables such as providing a reference number that would facilitate matching of collections with the proper receivable accounts. Coordinate with the LBP Lending Centers for the refund of any excess payment to the assured, if necessary.

The other significant observations and recommendations that need immediate action are as follows:

1. Retained Earnings-Unappropriated exceeded the Capital Stock by P152.248 million, which is prohibited under the Corporation Code of the Philippines.

We recommended that Management comply with the provisions of paragraphs 1 and 2 of Section 43 of the Corporation Code of the Philippines by considering the declaration of the excess of P152.248 million as dividend to the National Government.

2. The Accounts Receivable-Trade, Due to Principal, Accrued Service Fee Receivable and Gross Service Fee accounts were overstated due to the pending action on the requests of some LBP Lending Centers (LCs) for cancellation of insurance policies of the borrowers totaling P2.545 million.

We reiterated our recommendations that Management:

- a. Require the Marketing Division to closely monitor the requests for cancellation and other concerns of the agents in order that endorsements to concerned insurance companies could immediately be facilitated and the subsequent cancellation/adjustments by the Accounting Division could be made, and
- b. Require the analysis of accounts especially those outstanding in the books beyond 365 days from inception date, in coordination with the Marketing Division, and prepare the necessary adjusting entries if warranted, for fair presentation of the affected accounts in the financial statements.

The other observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on March 10, 2016 are discussed in detail in Part II of the report.

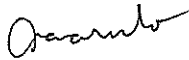
In a letter of even date, we requested the President and CEO of LIBI that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form and returning the same to us within 60 days from the date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus, facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



AGNES A. MARCELO
Director III
Officer-in-Charge

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government – Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The National Library
The UP Law Center
The COA Commission Central Library



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)

For the Years ended December 31, 2015 and 2014



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
LBP Insurance Brokerage, Inc.
12th Floor, SSHG Law Center
105 Paseo de Roxas
Legaspi Village, Makati City

We have audited the accompanying financial statements of **LBP Insurance Brokerage, Inc.** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Collections of insurance premiums pertaining to Employee Salary Loans of cooperative-borrowers, which were booked temporarily as Accounts Payable have accumulated to P22.982 million as of December 31, 2015 and remained outstanding for over 30 days to over one year due to the lack of details on the insurance premiums remitted by the LBP Lending Centers. Had the premium payments been matched/applied to the proper accounts, Accounts Receivable-Trade, Accounts Payable and related accounts would have been decreased by a total of P22.982 million.

Qualified Opinion

In our opinion, except for the effects on the 2015 financial statements of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **LBP Insurance Brokerage, Inc.** as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matters

We draw attention to Note 13 to the Financial Statements which disclosed that there is an excess of unappropriated retained earnings over the capital stock amounting to P152.248 million which is prohibited under the Corporation Code of the Philippines and SEC Memorandum Circular No. 11.

We also draw attention to Note 24 to the Financial Statements which disclosed that LIBI's collection rate of 85 per cent for the current year is lower than the last year's collection rate of 86.24 per cent due to the outstanding unexpired premium collectible of P39.711 million from Philippine Prudential Life Insurance Company, Inc. (PPLICI) as a result of the discontinuance of business with PPLICI as LIBI's insurance provider of credit life insurance (CLI) for LBP's salary loan program effective August 31, 2013. The change resulted in the accumulation of uncollected unexpired premium that were supposed to be refunded by PPLICI. There is uncertainty that the advance insurance premiums amounting to P39.711 million can be collected from PPLICI.

Our opinion is not modified in respect of these matters.

COMMISSION ON AUDIT


CORA D. MARQUEZ
Supervising Auditor



APR 12 2016

10 March 2016



LBP INSURANCE BROKERAGE, INC.
(A LANDBANK Subsidiary)

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **LBP (Land Bank of the Phils.) Insurance Brokerage, Inc.** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2015 and 2014 , in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

- a. Reconciliation of Retained Earnings Available for Dividend Declaration, and
- b. Schedule of PFRS Effective as of December 31, 2015

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information.

Commission on Audit, the independent auditor, has examined the financial statements of **LBP (Land Bank of the Phils.) Insurance Brokerage, Inc.**, in accordance with Philippine Standards on Auditing and, and in its report to the Board of Directors, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature:
TOMAS T. DE LEON, JR.
Chairman of the Board

Signature:
GEORGE R. FRANCISCO
President and CEO

Signature:
VIVIAN C. TAN
Treasurer

Signature:
SHIRLEY A. PALAPAL
Accounting Head



APR 2 2016

Signed this 21st day of March, 2016

LBP INSURANCE BROKERAGE, INC.
 (A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
 December 31, 2015 and 2014
 (In Philippine Peso)



	Note	2015	2014
ASSETS			
Current Assets			
Cash and cash equivalents	3	292,264,362	279,754,767
Foreign currency held for trading		527,689	353,911
Trade and other receivables	4	184,570,888	119,047,045
Other current assets	5	1,410,724	1,006,417
		478,773,663	400,162,140
Non-current assets			
Property and equipment	6	21,395,548	23,541,822
Investment property	7	998,316	998,316
Investments-held-to-maturity	8	713,534,724	685,267,849
Other non-current assets	9	107,069	139,845
Deferred tax asset	21	8,760,938	5,579,425
		744,796,595	715,527,257
TOTAL ASSETS		1,223,570,258	1,115,689,397
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	10	290,645,046	212,410,174
Income taxes payable	22	7,573,668	7,591,296
Other liabilities	11	15,103,513	17,712,801
		313,322,227	237,714,271
Equity			
Capital stock			
Authorized capital stock 3,000,000 common shares @ P100 par value			
Issued and outstanding 3,000,000 common shares	12	300,000,000	300,000,000
Retained earnings			
Retained earnings - appropriated	13	158,000,000	48,000,000
Retained earnings free		452,248,031	529,975,126
		610,248,031	577,975,126
		910,248,031	877,975,126
TOTAL LIABILITIES AND EQUITY		1,223,570,258	1,115,689,397



APR 12 2016

The Notes on pages 8 to 30 form part of these financial statements.

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
INCOME			
Service fees	14	95,999,369	93,643,150
Interest income on investments	15	27,424,730	27,990,372
Trading income	16	12,925,933	9,994,891
Other income	17	1,782,323	1,571,492
		<u>138,132,355</u>	<u>133,199,905</u>
EXPENSES			
Manpower costs	18	18,038,927	15,454,934
Operating expenses	19	16,120,838	11,198,036
Taxes and licenses		2,059,382	1,705,998
Other expenses	20	10,746,637	8,832,487
		<u>46,965,784</u>	<u>37,191,455</u>
INCOME BEFORE TAX		91,166,571	96,008,450
PROVISION FOR INCOME TAX	21	18,956,250	20,245,192
NET INCOME		72,210,321	75,763,258
OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME		72,210,321	75,763,258

The Notes on pages 8 to 30 form part of these financial statements.



APR 12 2016

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the Years ended December 31, 2015 and 2014
(In Philippine Peso)

	Capital Stock (Note 12)	Retained Earnings (Note 13)		TOTAL
		Appropriated	Unappropriated	
Balance at January 1, 2014	300,000,000	155,000,000	380,800,568	835,800,568
Cash dividend			(34,555,836)	(34,555,836)
Reversal of appropriations		(107,000,000)	107,000,000	0
Prior period adjustment			967,136	967,136
Net income			75,763,258	75,763,258
Balance at December 31, 2014	300,000,000	48,000,000	529,975,126	877,975,126
Cash dividend			(41,245,743)	(41,245,743)
Appropriations (Note 13)		110,000,000	(110,000,000)	0
Prior period adjustment			1,308,327	1,308,327
Net income			72,210,321	72,210,321
Balance at December 31, 2015	300,000,000	158,000,000	452,248,031	910,248,031

The Notes on pages 8 to 30 form part of these financial statements.

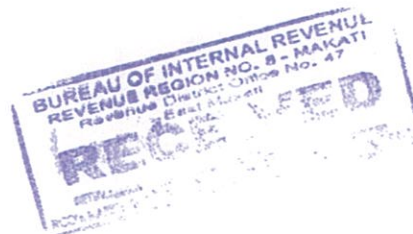


APR 12 2016

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Service fees - insurance received		83,781,285	89,697,963
Interest received		27,799,424	28,087,872
Trading income received		12,925,933	9,994,891
Other income received		1,320,877	1,223,980
Cash payments for manpower and operating expenses		(38,555,469)	(31,739,458)
Cash received from insurance companies		7,094,393	22,779,780
Cash payment for additional funding of Retirement Fund	2.11	(4,221,907)	0
Payment for income taxes		90,144,536	120,045,028
		(8,005,468)	(8,827,031)
Net cash generated from operating activities		82,139,068	111,217,997
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(441,600)	(1,604,018)
Proceeds from disposal of property and equipment		314,271	0
Placements of/Proceeds from maturing investments		(28,256,401)	2,157,404
Net cash provided by/(used in) investing activities		(28,383,730)	553,386
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividend	13	(41,245,743)	(34,555,836)
Net cash used in financing activities		(41,245,743)	(34,555,836)
NET INCREASE IN CASH AND CASH EQUIVALENTS		12,509,595	77,215,547
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		279,754,767	202,539,220
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	292,264,362	279,754,767

The Notes on pages 8 to 30 form part of these financial statements.



APR 12 2016

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(All Amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

1.1 Corporate Background

The LBP Insurance Brokerage, Inc. (LIBI) was organized as a wholly owned subsidiary of Land Bank of the Philippines (LBP) on October 22, 1981 under Securities and Exchange Commission (SEC) Registration No. 105764. On May 16, 1983, its Articles of Incorporation was amended increasing the number of directors of the Board from 9 to 11. This was further amended on October 17, 1994 increasing the LIBI's authorized capital stock from P20,000,000 to P300,000,000 and revising its secondary purpose. It was created primarily for the purpose of engaging in the business of general insurance brokerage management and consultancy more particularly as follows:

- To act as insurance broker for life, health, accident, motor car, casualty, surety and fidelity, marine cargo and hull, comprehensive liability insurance and other insurance coverage allied with and incident to the above-mentioned lines, and
- To engage in management and consultancy work on insurance and in this connection, to hold, own, purchase, acquire, underwrite, obtain participation in and manage the business of any corporation, partnership or equity.

Its secondary purpose is to engage in the business of buying and selling of foreign currencies; and buying, selling, importing, exporting and/or dealing in any manner, at wholesale or retail of goods and merchandise.

The registered and principal office of business is located at 12th Floor SSHG Law Centre Building, 105 Paseo de Roxas St., Legaspi Village, Makati City.

1.2 Authorization for Issue of the 2015 Financial Statements

The financial statements of LIBI for the year ended December 31, 2015 were authorized for issue by the Board of Directors per Board Resolution No. 2016-001-001 dated February 1, 2016.

2. Summary of Significant Accounting Policies

2.1 Basis of Financial Statements Preparation

The accompanying financial statements have been prepared using historical cost basis except for Held-to-Maturity Investments in government securities which are stated at amortized cost using effective interest method, Investments in Agrarian Reform Bonds which are stated at cost, adjusted for accretion of discounts amortization and attrition due to partial redemption and foreign currency held for trading in LIBI-Forex division which is stated at spot exchange rate.

The financial statements are presented in Philippine Peso, the Corporation's functional and presentation currency. All values are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance

The financial statements of LIBI have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

2.2 Adoption of Philippine Accounting Standards (PAS)/Philippine Financial Reporting Standards (PFRS)

PAS 1, Presentation of Financial Statements, provides framework of financial statements presentation. It requires more specific statement of financial position line items (tax liabilities, provisions, non-current interest bearing debt, among others). The standard requires presentation of comparative financial statements and information.

PAS 7, Statement of Cash Flows, prescribes the provision of information about historical changes in cash equivalents of an entity by means of a cash flow statement which classifies cash flow during the period from operating, investing and financing. The standard explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and prospective restatement to correct prior period errors. It defines material omissions or misstatements, and describes how to apply the concepts of materiality when applying accounting policies and correcting errors.

PAS 10, Events after the Reporting Period, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the financial statements, principally the date of authorization for release of the financial statements.

PAS 12, Income Taxes, prescribes the accounting treatment for income taxes. Current tax for the current and prior periods should be recognized as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due. Current tax assets and liabilities should be measured at the amount expected to be paid to (recovered from) taxation authorities, using the rates/laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

PAS 16, Property, Plant and Equipment, provides additional guidelines and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item, property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

PAS 18, Revenue, provides under item 13 of the appendix accompanying PAS 18 that Insurance agency commissions received or receivable which do not require the agent to render further service are recognized as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over the period during which the policy is in force.

PAS 19, Employees Benefits, the objective of this standard is to prescribe the accounting and disclosure of employee benefits (that is all forms of consideration given by an entity in exchange for service rendered by employees). This standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

PAS 21, Effects of Changes in Foreign Exchange Rates, addresses the accounting for transactions in foreign currency. It provides that foreign currency transactions shall be recorded, on initial recognition by applying to the foreign currency amount the spot exchange rate at the date of transaction; exchange difference arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recognized shall be recognized in profit or loss in the period in which they arise. The adoption of this standard will have no material impact on the financial statements.

PAS 24, Related Party Disclosures, provides additional guidance and clarification in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosures of the total compensation of key management personnel and benefit types.

PAS 26, Accounting and Reporting by Retirement Benefit Plans, the objective of this standard is to specify measurement and disclosure principles for the reports of retirement benefit plans. All plans should include in the report a statement of changes in net assets available for benefits, summary of significant accounting policies, and description of the plan and effect of any changes in the plan during the period.

PAS 32, Financial Instruments: Disclosures and Presentation, sets out the required disclosures and presentation of financial instruments to enhance financial statement users' understanding of the significance of financial instruments to an entity's overall financial position, performance, and cash flows. PAS 32 requires strict offsetting criteria for financial assets and liabilities.

PAS 36, Impairment of Assets, provides that an asset is impaired when its carrying amount exceeds its recoverable amount. Indications of impairments are the following: obsolescence or physical damage; asset is held for disposal and there is evidence that the economic performance of an asset is, or will be, worse than expected.

PAS 39 Financial Instruments: Recognition and Measurement, establishes specific categories into which all financial assets and liabilities must be classified.

PAS 40, Investment Property, provides that Investment property should be recognized as an asset when it is probable that the future economic benefits that are associated with the property will flow to the enterprise, and the cost of the property can be reliably measured. Investment property is initially measured at cost, including transaction costs. Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

PFRS 9, Financial Instruments Part I: Classification and Measurements, covering the classification and measurements of financial assets. Mandatory effective date of PFRS 9 will be on January 01, 2015 as per SEC Memorandum Circular No. 03 dated May 24, 2012.

Despite of not early adopting PFRS 9, such has no financial impact on classification and measurements of financial assets and financial liabilities since all of LIBI's investments were held until maturity to collect (contractual cash flows) interest on a quarterly and semi-annually basis.

2.3 Use of Estimates

The preparation of financial statements in accordance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumption used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

2.4 Cash and Cash Equivalents

Cash in the statement of financial position comprises cash on hand and in banks. Cash equivalents consists of short-term investments in marketable government securities with maturities not exceeding three months and that are subject to an insignificant risk of change in value.

2.5 Foreign Currency Held for Trading

Foreign currency held for trading in LIBI-Forex division is stated at spot exchange rate.

2.6 Investments in Held-to-Maturity Securities (HTM)

LIBI existing policy is to invest excess funds in government securities (GS) since the servicing and repayments are fully guaranteed by the government.

Investments in GS – Agrarian Reform Bonds are stated at cost, adjusted with the amortization of discounts/premium and attrition due to partial redemption.

Investments in GS – Fixed Treasury Notes, Retail Treasury Bonds are stated at amortized cost using effective interest method.

2.7 Trade and Other receivables

LIBI acts as an agent in placing the insurable risks of its clients with insurers and as such, is not liable as principal for amounts arising from such transactions. However, Premium Receivables were recognized upon issuance of Statement of Accounts. Accrual of service fees from private insurers are based on premium production and accrual of extra remuneration from GSIS based on LIBI's compliance to 30-day period within which to remit premiums, were recognized and presented as Accrued Service Fees Receivables which is included as one of the accounts under Trade and Other Receivables.

To fairly present the net realizable value of Accrued Service Fees Receivable and Other Receivable, an Allowance for Doubtful Accounts has been provided. The allowance was then determined based on the aging schedule multiplied by the rate or per cent of loss experienced by LIBI.

2.8 Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition.

Depreciation and amortization is calculated on a straight-line basis computed at cost less ten percent residual value over the estimated useful lives of the property and equipment as follows:

	Number of Years
Building	20
Furniture, Fixtures and Equipment	5
Motor Vehicle	7

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Minor expenditures incurred after the fixed assets have been put into operation, such as replacements, repairs and maintenance costs amounting to P10,000 or less are normally charged to profit and loss in the period in which the costs are incurred.

The assets' residual values, useful lives and depreciation and amortization method are reviewed periodically to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

2.9 Income recognition

Beginning 2008, LIBI recognizes commission income (service fees) from private insurers based on premium billings upon rendition of brokering services to the assured and upon issuance of policies by the insurer. Accrual method is used in recognizing commission income from insurers.

Interest Income is recognized using effective interest method.

Gain or losses arising from trading of foreign currency are reported in the statement of comprehensive income.

Revenue is recognized to the extent that is probable that the economic benefits will flow to LIBI and the revenue can be reliably measured.

2.10 Income Taxes

Income tax on the profit for the year comprises current tax only. Income tax is recognized in the statement of comprehensive income. Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted as of the reporting date, and any adjustment to tax payable in respect to previous years.

Deferred Tax Asset refers to tax consequence attributable to differences between the financial reporting bases of assets and liabilities. It is measured using the tax rate applicable to taxable income in the year in which those temporary differences are expected to be recorded or settled. Deferred Tax Asset is recognized to the extent of the realization of the related Income Tax Benefit through future taxable income.

2.11 Employee Benefits

In compliance with the provisions of the Retirement Law [Republic Act (R.A.) No. 7641], which requires corporation to provide retirement benefits for their employees, and the National Internal Revenue code (R.A. No. 8424), which allows tax deductibility of employer's contributions for the retirement benefits of its employees, LIBI has established a retirement fund pursuant to Board Resolution No. 2010-006-012 dated July 30, 2010. The retirement benefit plan is a defined benefit type and is non-contributory.

The set-up of Retirement Fund Liability was approved by the Board of Directors on September 01, 2010 per Board Resolution No. 2010-007-013.

The cost of defined benefit plan is determined by using actuarial valuation; hence, LIBI engaged the services of a duly certified independent actuarial firm on December 30, 2010. However, because of the changes in manpower complement due to availment of 10 employees out of the original 39 eligible employees and four years had lapsed since the last actuarial valuation, LIBI then engaged the services of E. M. Zalamea Actuarial Services, Inc. for revaluation of LIBI's Retirement Plan. Below are the actuarial valuation results as of January 01, 2015:

- The retirement plan covers all its officers and regular employees, 12 males and 18 females totaling 30 eligible employees;
- Average age in years is 42.1;
- Average years of remaining life of the employees group is 14.9
- Average years of Past Service is 14.4
- Mortality rate was based on the 2001 CSO Table- Generational (Scale AA, Society of Actuaries) and the disability rate was based on the Disability Study, Period 2, Benefit 5 (Society of Actuaries);
- The interest rate was assumed at 4 per cent, compounded annually;
- The salary increase rate was assumed at 7 per cent, compounded annually;
- The Normal Retirement Age is 60
- The Projected Retirement benefit is one-half month basic salary for every year of service;
- The funding method used was the Accrued Benefit Actuarial Cost Method (Projected Unit Credit);
- The employee turnover rates are 100 per cent of the following standard table:

Age	Rate (%)
19-24	7.50
25-29	6.00
30-34	4.50
35-39	3.00
40-44	2.00
≥45	0.00

Under the Accrued Benefit Valuation Method, Past Service Liability (PSL) is P11,099,195 while the Annual Normal Cost (ANC) is P670,783.

Based on June 30, 2015 LBP-Trust Banking Group Financial Report, LIBI's Retirement Fund Book Value amounted to P6,877,288. Hence, LIBI made additional funding of P4,221,907 to totally cover the P11,099,195 PSL. The approval of the additional fund is per Board Resolution No.2015-007-023 dated August 04, 2015.

LIBI appropriated its Retained Earnings from 2000 to 2008 a total amount of P10,000,000 for retirement benefit plan. On July 18, 2011, the Retirement Fund was finally set-up by LIBI of which LBP-Trust Banking Group (LBP-TBG) was appointed as Trustee of the fund. LIBI treated this fund as off books in accordance with PAS 26-Accounting and Reporting by Retirement Benefit Plan. The monitoring of this fund would be done by the LIBI Administrative Head, which would be checked periodically by the Accounting Head.

Out of the original 39 eligible employees, 11 employees availed of the Retirement Fund wherein retirement benefits totaling to P4,272,756 were withdrawn from the fund as at December 31, 2015. The remaining balance of the Retirement Fund as at December 31, 2015 is P9,999,657.62. Accumulated Income since the transfer of the fund on July 18, 2011 to LBP-TBG reached P1,099,603 as at December 31, 2015.

3. CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents includes the following:

	2015	2014
Petty cash fund	52,000	27,000
Revolving fund	145,636	451,539
Cash in bank	292,066,726	279,276,228
	292,264,362	279,754,767

4. TRADE AND OTHER RECEIVABLES

This account consists of:

	2015	2014
Accounts receivable – Trade ¹¹	155,318,414	90,053,086
Accounts receivable – Non-trade	1,464,115	1,760,472
Accrued service fee receivable ¹²	47,845,650	35,627,566
Accrued interest receivable	4,496,374	4,871,068
Tax withheld receivable	4,219,237	4,895,213
Creditable value added tax	0	7,500
	213,343,790	137,214,905
Less: Allowance for doubtful accounts	28,772,902	18,167,860
	184,570,888	119,047,045

¹¹ This account represents outstanding premium receivable from the assured whose insurance policies were issued by private insurers.

¹² This includes accrued service fee on unexpired premium collectible from Philippine Prudential Life Insurance Company, Inc.

Allowance for doubtful accounts was computed based on aging of accounts receivable and then multiplied by the rate or per cent of loss experienced by LIBI.

For the current year, additional provision for probable losses amounting to P10,813,238 was recognized for the Accrued service fee receivable account, as follows:

Aging	Accrued Service Fee Receivable	% of Allowance	Provision for Probable Losses (Note 20)
Accrued Service Fees- Livelihood/Salary Loan			
2014	9,327,115	100%	9,327,115
2013	1,770,649	75%	1,327,987
	11,097,764		10,655, 102
Accrued Service Fees- Private Insurers			
Over 365 days	158,136	100%	158,136
	158,136		158,136
			10,813,238

On the other hand, a total amount of P208,196 was reversed during the year due to collection (Note 20).

5. OTHER CURRENT ASSETS

This account consists of:

	2015	2014
Prepaid expense	1,028,276	697,813
Input tax	260,929	209,780
Office supplies inventory	107,690	97,417
Advances to suppliers	13,829	1,407
	1,410,724	1,006,417

6. PROPERTY AND EQUIPMENT

This account consists of:

	Office Equipment	Information Technology	Furniture and Fixtures	Building and Improvements	Motor Vehicles	Total
Cost,						
Jan. 1, 2015	5,619,592	745,792	2,176,028	37,746,712	4,013,714	50,301,838
Acquisitions	411,161	0	0	30,439	0	441,600
Disposal	(167,411)	0	0	0	(664,500)	(831,911)
Balance,						
Dec. 31, 2015	5,863,342	745,792	2,176,028	37,777,151	3,349,214	49,911,527
Accumulated depreciation,						
Jan. 1, 2015	4,641,866	157,136	1,962,027	18,351,689	1,647,298	26,760,016
Depreciation	230,392	134,243	0	1,698,329	387,682	2,450,646
Disposal	(155,532)	0	0	0	(539,151)	(694,683)
Balance,						
Dec. 31, 2015	4,716,726	291,379	1,962,027	20,050,018	1,495,829	28,515,979
Net carrying amount,						
Dec. 31, 2015	1,146,616	454,413	214,001	17,727,133	1,853,385	21,395,548
Net carrying amount,						
Dec. 31, 2014	977,726	588,656	214,001	19,395,023	2,366,416	23,541,822

7. INVESTMENT PROPERTY

This represents assets acquired through dacion en pago from the former employee with outstanding obligation amounting to P998,316. The dacioned properties consist of two parcels of land containing a total area of 5,847 square meters and are located at Catbalogan, Western Samar. The concerned employee was given the right to repurchase the properties within one year. However, it did not materialize. Hence, these were consolidated in the name of LIBI. The appraised value of one lot amounted to P876,900 while there is no appraisal yet conducted for the other one. Management will request appraisal of the said lot from LBP.

8. INVESTMENTS – HELD -TO- MATURITY

Details of this account are as follows:

	2015	2014
Retail treasury bonds	537,944,076	609,448,949
Treasury Bills	100,470,827	0
DBP-Tier II	75,000,000	75,000,000
Agrarian reform bonds	119,821	818,900
	713,534,724	685,267,849

Held to maturity investments of LIBI carry interest rates at December 31 as follows:

	2015	2014
Retail treasury bonds	6.125% and 3.250%	6.125% and 3.250%
DBP-Tier II	4.875%	4.875%
Treasury Bills	1.88% and 1.90%	-

Board Resolution No. 2014-009-027 dated October 29, 2014 approved the request of LBP Leasing Corporation (LLC), now LBP Leasing and Finance Corporation (LLFC), for the assignment of P500,000,000 worth of government securities – Retail Treasury Bonds as partial collateral for LLC's existing short term loan from Land Bank of the Philippines. The Deed of Assignment by way of security was executed on October 31, 2014 by and between LIBI and LLC for a period of two years. In consideration of the assignment, LLC shall pay LIBI a guarantee/ assignment fee equivalent to 1/8 of 1 per cent or P625,000 per annum or P52,083.33 per month. The guarantee/assignment fee is being paid by LLC on a quarterly basis.

9. OTHER NON-CURRENT ASSETS

This account consists of:

	2015	2014
Miscellaneous deposits	77,769	77,769
Other assets	0	32,776
Investment in PLDT stocks	29,300	29,300
	107,069	139,845

10. TRADE AND OTHER PAYABLES

This account consists of:

	2015	2014
Due to principal ¹	97,034,887	113,470,601
Accounts payable ²	47,967,347	50,047,252
Accounts payable—others ³	145,642,812	48,892,321
	290,645,046	212,410,174

¹ This pertains to insurance premiums payable to insurance companies as of December 31, 2015.

² This refers to the advance payments of premiums by clients/assured awaiting issuance of insurance policies and/or matching of premium invoices. Transactions representing excess payments of premiums are also recorded under this account awaiting instruction from assured/LBP for its refund or application to future renewal of policies.

³ This includes unreleased checks and authority to debit totaling P51,060,233 for payment of insurance premiums to various insurance companies that remain under the custody of the Cashiering Unit as at December 31, 2015 awaiting corresponding tax certificates (BIR Form 2307) from various insurance companies. This account also includes outstanding unexpired premium payable to Philam Life temporary reclassified under this account while waiting payment of return/refund of unexpired premium from The Philippine Prudential Life.

11. OTHER LIABILITIES

This account consists of:

	2015	2014
Accrued expenses payable	7,166,755	9,557,706
Handling fee payable (Note 23)	6,673,054	6,964,029
Output tax	926,325	757,811
Withholding tax payable	253,894	204,491
Gross receipts tax payable	81,333	70,936
LBP-MBC salary loan payable	2,152	7,828
Miscellaneous liability	0	150,000
	15,103,513	17,712,801

12. CAPITAL STOCK

The Board of Directors approved the declaration of stock dividends of P75,000,000 or 750,000 shares per Board Resolution No. 07-03-006 dated March 28, 2007.

Additional 250,000 shares or P25,000,000 was declared and approved by the Board of Directors on September 25, 2007 representing full subscription of the Corporation's authorized capital stock.

As at December 31, 2015, issued and outstanding shares totaled 3,000,000.

13. RETAINED EARNINGS

Declaration of CY2014 cash dividend of P41,245,743 was approved on March 21, 2015 per Board Resolution No. 2015-003-009 and payment of such dividend to the National Government was made directly to Bureau of Treasury on May 06, 2015.

Prior year's appropriations on retained earnings for expansion, computerization and technology upgrade, contingencies and for motor vehicle purchase with an aggregate amount of P107,000,000 were reversed on June 30, 2014 in accordance with Board Resolution No. 2014-006-020 because some of the purposes of the appropriations did not materialize or had already been served.

A total amount of P110,000,000 was appropriated from the excess Retained Earnings and approved by the Board in its Resolution No. 2015-004-010 dated April 30, 2015. As of December 31, 2015, total appropriations amounted to P158,000,000, as follows:

Particulars	Amount (In Philippine Peso)
Appropriation for the technology and computer upgrades	18,000,000
Appropriation for other contingencies	30,000,000
Appropriation for non-collection of refund of premium from Prudential Life	63,000,000
Appropriation for the reversal of related service fee	15,000,000
Appropriation for procurement of Risk Modeling System	27,000,000
Appropriation for trainings and seminars for ISO/GQMSS certification	2,000,000
Appropriation for office expansion	2,000,000
Appropriation for procurement of office equipment, furniture and fixtures	1,000,000
	158,000,000

While there is an excess in retained earnings of P152.248 million over the capital stock, the LIBI Management will request from the members of the Board on April 4, 2016 for the approval of the declaration of cash dividend for 2015 amounting to P41,407,681 and the appropriation for the possible merging of DBP Insurance and LIBI.

13.1 Prior Period Adjustments

For CY2015, prior period adjustment of P1,308,327 pertains to reversal of accrued audit fee in prior years. The over accrual was due to COA's billing in year 2008 amounting P420,172 which was used as the basis in the computation of monthly accrual of audit fee, while for CY2014, the amount of P967,136 pertains to adjustment on accrual of expected salary increase.

14. SERVICE FEES

Details of this account are as follows:

	2015	2014
Gross service fees	104,193,423	102,668,996
Less: Handling fees (Note 23)	8,194,054	9,025,846
	95,999,369	93,643,150

15. INTEREST INCOME ON INVESTMENTS

This pertains to interest income earned from investment held-to-maturities such as Retail Treasury Bonds, DBP-Tier II, Treasury Bills and Agrarian Reform Bonds totaling P713,534,724 as of December 31, 2015.

16. TRADING INCOME

This refers to income earned from buying and selling, and brokering of foreign currencies with a volume totaling USD163,289,630 and USD87,360,361 for CY 2015 and CY 2014, respectively. Average spread has decreased from 0.114 centavos in 2014 to 0.079 in 2015, equivalent to 30.70 percent or 0.035 centavos.

17. OTHER INCOME

Details of this account are as follows:

	2015	2014
Rental income	150,000	600,000
Interest on bank deposits (net)	543,868	506,965
Gain on foreign exchange	265,321	320,370
Bond discount	10,474	27,142
Gain on disposal of property and equipment	185,651	0
Miscellaneous income	627,009	117,015
	1,782,323	1,571,492

18. MANPOWER COSTS

This account consists of the following:

	2015	2014
Salaries and wages	8,716,010	7,662,288
Employees other benefits	5,532,615	4,548,990
Rice subsidy	1,026,210	878,155
Bonus to employees	776,400	607,850
Overtime	671,748	409,697
SSS, EC and Medicare premium expense	528,037	510,447

	2015	2014
Medical, dental and hospitalization	429,000	418,167
Executive and employment development	194,962	234,659
Uniform allowance	124,955	142,857
HDMF premium expense	38,989	41,824
	18,038,926	15,454,934

19. OPERATING EXPENSES

Details of this account are as follows:

	2015	2014
Directors and committee member's fees	4,659,250	1,408,800
Depreciation expense (Note 6)	2,450,646	2,353,449
Janitorial, security and contractual services	1,758,150	1,687,790
Light and water	1,213,819	968,946
Postage, telephone and telegram	1,004,220	688,533
Business development	784,887	697,698
Office supplies and stationeries	648,306	627,522
Audit fee	475,750	700,347
Transportation and travel	463,053	154,011
Representation and entertainment	430,299	644,505
Office rental (Note 23)	182,088	171,638
Professional fees	179,243	53,437
Insurance expense	152,647	170,372
Rental-office equipment (Note 25)	120,000	120,000
Repairs	106,434	154,745
Advertising and promotion	47,432	22,399
Planning, sports and development	16,633	0
Books and periodicals	4,500	5,000
Miscellaneous expense	1,423,481	568,844
	16,120,838	11,198,036

20. OTHER EXPENSES

This account consists of the following:

	2015	2014
Provision for probable losses (Note 4)	10,605,042	6,728,228
Donation and contribution ¹	50,000	2,000,000
Bank service charge	50,211	104,259
Loss on disposal of office equipment	41,384	0
	10,746,637	8,832,487

¹ For CY 2014, the amount of P2,000,000 was a LIBI's donation and contribution to LandBank Countryside Development Foundation, Inc. (LCDFI), a subsidiary of Land

Bank of the Philippines, while for CY 2015, the amount of P50,000 was a donation to the Manila Bay Sunset Partnership Program, Inc.

21. INCOME TAXES

The provision for/(benefit from) income tax consists of the following:

	2015	2014
Provision for income tax	22,137,763	22,263,660
Income tax benefit	(3,181,513)	(2,018,468)
	18,956,250	20,245,192

Reconciliation of Income before income tax against taxable income is as follows:

	2015	2014
Income before income tax	91,166,571	96,008,450
Non-deductible expenses—provision for probable losses	10,605,042	6,728,228
Non-taxable income and income subjected to final tax:		
Interest income on investments	(27,424,730)	(27,990,372)
Interest income on bank deposits	(543,868)	(506,965)
Bond discount	(10,473)	(27,142)
	(17,374,029)	(21,796,251)
Net taxable income	73,792,542	74,212,199
Income tax rate	30%	30%
Provision for income tax	22,137,763	22,263,660

Deferred tax asset/Income tax benefit is computed as follows:

	2015	2014
Deferred tax asset, beginning of year	5,579,425	3,560,957
Reversal of 2014 provision from private insurance due to collection (Notes 4 and 20)	(208,196)	
Provision for probable losses recorded at year end for (Notes 4 and 20):		
Accrued service fees receivable from private insurance	158,136	957,067
Accrued service fees receivable from PY2013 CLI	1,327,987	
Accrued service fees receivable from PY2014 CLI	9,327,115	
Uncollected extra remuneration from GSIS:		
PY2013 accrued extra remuneration	0	1,061,775
PY2011 accrued extra remuneration	0	1,282,622
PY2012 accrued extra remuneration	0	3,426,764
	10,605,042	6,728,228
Prevailing income tax rate	30%	30%
Deferred tax asset/income tax benefit recorded at year end	3,181,513	2,018,468
Balance, end of year	8,760,938	5,579,425

Income tax benefits shall be deducted from the LIBI's future tax obligations to the extent of the amount of provision for accrued service fees receivable that will have no economic benefits to the Corporation.

22. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth in RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

A. LBP Insurance Brokerage Inc. is a VAT- registered Corporation with VAT output tax declaration of P10,529,432 based on actual collections during the year of service fees and rental income amounting to P87,745,263. Actual VAT paid for the year amounted to P9,566,786 after applying Input Tax of P918,688 and creditable withholding tax of P43,958.

LIBI's secondary purpose is to engage in the business of buying and selling of foreign currencies and paid the amount of P904,815 charged under Taxes and licenses account representing gross receipt tax (GRT) pursuant to RR 9-2004 regulations and based on the amount reflected in the Trading income account of P12,925,933.

The amount of VAT input taxes claimed are broken down as follows:

Beginning of year		P 209,780
Current year's purchases:		
Capital goods	76,682	
Goods other than for resale or manufacture	157,636	
Services lodged under other accounts	684,370	
Claims for tax credit/refund and other adjustments	(867,539)	51,149
End of year		P260,929

B. Other taxes and licenses charged under Taxes and licenses account are as follows:

a. Local		P 792,170
Mayor's permit		188,050
Real property tax		100,037
Real estate tax		10,500
Community tax certificate		1,077
Fire realty tax and inspection fee		2,500
Barangay clearance		1,094,334
b. National		904,815
Gross receipts tax		45,450
License and filing fee – Insurance Commission		8,437
Registration of motor vehicle at LTO		5,336
Fringe benefits tax		500
BIR annual registration		

 965,048

 P2,059,382

C. The income taxes/withholding taxes paid/accrued for the year amounted to:

Corporate tax	P15,595,631
Creditable withholding tax at source (paid in advance by LIBI and used as tax credits)	6,542,132
Total (Note 21)	22,137,763
Tax on compensation and benefits	1,548,727
Creditable withholding tax from suppliers	455,614
	P24,142,104

The income tax payable as of December 31, 2015 amounted to P7,573,668.

There is an outstanding Letter Notice (LN) No. 047-RLF-11-00-00123 dated January 28, 2013 regarding the discrepancy resulting from Reconciliation of Listing for Enforcement (RELIEF) and Third Party Matching – Tax Reconciliation system (TRS) as declared in LIBI's tax returns filed for CY2011 particularly VAT returns filed by suppliers. The required documents needed to refute the findings were forwarded to the BIR.

23. RELATED PARTY DISCLOSURES

The financial statements include various transactions with its parent and affiliated companies. The more significant related party transactions, arising from normal course of business include the following:

- a. The LIBI with its foreign exchange trading division, LIBI-Forex, entered into a lease contract agreement with its parent company, LBP. The essential terms and conditions of the contract are as follows:
 - That LIBI (Lessee) has agreed to lease from Land Bank of the Philippines (Lessor) an office space with an aggregate floor area of 64.07 sq. m., at the 14th Floor of Land Bank Plaza located at 1598 M. H. del Pilar cor. Dr. J. Quintos Sts., Malate, Manila.
 - The term of the lease shall be for a period of five years, commencing from November 01, 2012 and shall expire on October 31, 2017.
 - The Lessee, shall pay a concessional rate of P200 per sq. m. or Pesos; Twelve Thousand Eight Hundred Fourteen and 00/100 (P12,814) per month, inclusive of electricity, electrical fixtures, water, toilet fixtures/supplies, (except the telephone), which rental shall be payable upon receipt of notice/billing statement from the Lessor (Note 19).

- The Lessee shall share pro-rata in the cost of the receptionist, janitorial services, pest, and similar expenses to maintain the floor area, and the cost shall be computed based on the leased area divided by the total floor area, which amount shall be payable upon receipt of notice/billing statement from the Lessor.

b. To defray expenses in appraisal, inspection of property to be insured and other administrative matters such as collection of payments of insured properties, handling fees are given to LIBI's clients, the LBP units, branches and subsidiaries. For the current year, handling fee accrued and payable to LBP units, branches and subsidiaries reached P8,194,054 (Note 14).

c. Compensation of key management personnel for 2015 and 2014 are as follows:

	2015	2014
For the President and CEO:		
Total salaries and wages	1,331,871	1,080,000
Total short-term employee benefits (RA, PEI, per diem, bonuses, medical benefits)	911,090	509,956
	<u>2,242,961</u>	<u>1,589,956</u>
For Corporate officers who are employees of the parent company, LBP:		
Total short-term employee benefits (per diems and reimbursable expenses)	219,104	191,500
Total compensation paid to key management personnel	<u>2,462,065</u>	<u>1,781,456</u>

d. A Trust Agreement was made and entered into by and between LBP Insurance Brokerage, Inc. (LIBI) and LBP – Trust Banking Group (LBP-TBG) on July 18, 2011 thereby appointing the latter as the Trustee of the LIBI's Retirement Benefit Plan. The essential terms and conditions of the agreement are as follows:

- The Trustor (LIBI) shall deliver and pay to the Trustee such sums representing the annual contributions of the Trustor as provided in the Plan, starting with the contribution for the current year in the amount of PESOS: Ten Million One Thousand Pesos (Php10,001,000.00).
- The Trustor hereby waives all its rights and interest to the money or properties which are and will be paid or transferred to the Fund, to the extent required to provide the benefits pursuant to the Plan.
- The Trustee shall hold the title to the Fund to be held in trust for the purpose stated in and subject to all the terms and conditions of the Agreement as well as the Plan, which shall be deemed part of this Agreement. The Trustee shall invest and re-invest the Fund, together with all increments and proceeds in fixed-income government securities like Treasury Bills or Notes, Agrarian Reform Bonds, Retail Treasury Bonds, BSP Special Deposit Account and other financial instruments duly

guaranteed by the Republic of the Philippines; deposit arrangements/special deposit account with reputable banks including the Trustee's own commercial banking sector; and common or preferred shares of stocks, bonds or note issued by blue-chips private and government-owned corporations. Other investment outlets shall require prior written approval of the Trustor.

- To cause any asset acquired from the investment/reinvestment of the Fund to be held, registered and issued in its own name as Trustee or in the name of its nominee, provided, that the books and records of the Trustee shall at all times show that all such properties are part of the Fund. To pay all costs, fees, charges and such other expenses connected with the investments, administration, reservation and maintenance of the Fund and to charge the same to the Fund.

- In the management of the fund, the Trustee shall pay to the beneficiaries the benefits under the Plan upon written advice of the Trustor. To keep and maintain books of accounts and/or records of the management and operations of the Fund, which the Trustor or its authorized representative may inspect from time to time. At the end of every calendar quarter, to submit the financial reports, investment activity reports or such other reports as may be requested by the Trustor. The Trustee shall administer the funds held in trust with such degree of skill and care as a prudent man would exercise in the conduct of an enterprise of like character and with similar aims.

- For its services, the Trustee shall be entitled to a fee equivalent to 0.75 per cent per annum of the average total assets of the Fund, computed daily and collected at the end of each quarter. The Trustee is hereby authorized to debit its fees from the Fund. The above fee is quoted with the understanding that the same may be reviewed at the request of either party and adjusted in a mutually satisfactory basis.

- Except for fraud, bad faith or gross negligence, the Trustee shall not be liable for any losses or depreciation in the value of the Fund resulting from investments or reinvestments thereof as authorized herein, or from the performance of any act in accordance with the provision of the Agreement. This Agreement shall not guarantee a yield, return of income on the investment/reinvestments of the Fund as the same can fall as well as rise depending on prevailing market conditions and is not covered by Philippine Deposit Insurance Corporation. Losses, if any, shall be for the account of the Trustor (pursuant to Section X409.1 of the Manual of Regulations for Banks-Part IV).

- The Agreement shall remain in full force and effect until the termination of the Plan unless sooner terminated by either party hereto by giving thirty days advance notice to the other.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

LIBI recognizes the importance of an effective financial risk management program and a Risk Management Manual was finalized and approved by the members of the Board in 2009.

The objective of the Manual is to serve as basis and reference for consistent risk management that is applicable to all employees of LBP Insurance Brokerage, Inc. (LIBI). It aims to create a culture of risk-awareness, not risk-aversion based on the prudential framework required by BSP circulars. It provides a general set of risk principles delegated to each business unit through its reporting and approval procedures.

A Risk Management Committee was created to be primarily responsible for the development and oversight of the risk management programs of LIBI which include oversight of management functions and approval of proposals regarding LIBI's policies, procedures and best practices relative to asset and liability management, credit, market and business operations risks ensuring that: (a) insurance requirements of its mother unit Land Bank of the Philippines and their lending units are passed on to LIBI; (b) system of limits remain effective; and (c) immediate corrective actions are taken whenever limits are breached or whenever necessary.

As part of identification risk, the following are classified as major risks that LIBI manages in the course of its business.

Market Risk

Market risk can be generally defined as risk of loss, immediate or over time, due to adverse, fluctuations in price or market value of instruments, products and transactions in LIBI's overall portfolio. Market risks are central focus of risk measurement methodologies and limits, as well as gauge by which LIBI can determine returns it will require for its activities.

Insurance Division

Net premium volume produced during the year reached P572,038,045, a decrease of P4,134,774 or 0.73 per cent compared to last year's P567,903,271 net premium volume. This was primarily due to the significant decrease in premium volume from LBP Provident Fund and Direct Business.

Net service fees from insurance brokering for the year of P95,999,369 is P2,356,219 or 2.52 per cent higher against last year's P93,643,150 net service fees (Note 14).

LIBI, as a subsidiary of LBP, has already a captured LBP as market for its products and services. Nonetheless, LIBI continues to intensify its campaign to solicit more direct business from private corporations and other government entities.

Forex Division

Trading income for the year of P12,925,933 is 29.33 per cent or P2,931,042 higher against last year's Trading income of P9,994,891.

Volume of dollars traded by LIBI-Forex Division for CY2015 amounted to USD163,289,630. This represents an increase of USD75,929,269 or 86.92 per cent compared to last year's volume of dollars traded of USD87,360,361. Average spread has decreased from 0.114 centavos in 2014 to 0.079 in 2015, equivalent to 30.70 percent or 0.035 centavos.

Foreign Exchange Risk

LIBI-Forex's foreign currency held for trading has a minimal balance of P527,689 which is 0.32 per cent of the division's total assets of P162,239,334, thus, foreign exchange risk is low.

Liquidity Risk

It is the risk that LIBI will be unable to make a timely payment of any of its financial obligations to customers or counterparties in any currency. Trading Liquidity risk refers to inability to unwind positions created from markets, exchanges and counterparties due to temporary or permanent factors.

Prudent liquidity risk management implies sufficient cash and cash equivalents and marketable securities. Insurance and Forex Divisions' cash inflows from operations and readily marketable government securities investments provide the bulk of LIBI's liquidity buffer.

Interest Rate Risk

This is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. LIBI's fixed rate investments in held-to-maturity investments are exposed to such risk. Interest income derived from investments this year of P27,424,730 was lower by 2.021 per cent or equivalent to P565,642 against last year's interest income of P27,990,372.

It is the policy of LIBI to invest excess funds in government securities (GS) where the servicing and repayments are fully guaranteed by the government. The investment in GS may be placed with the Land Bank Treasury and Investment Banking Group or Land Bank Trust Banking Group.

LIBI's Investment Committee observes diversified GS portfolio, varied maturity spectrum and optimum yields in deciding the type and term of investment. When yields of GS are expected to go down, LIBI buys long-term GS in order to lock-in on high yielding GS. Conversely, when yields are expected to go up, it buys short-term GS to stay liquid and be able to switch to high yielding GS when rates start to pick up.

LIBI's principal financial instruments comprise of cash deposits, held-to-maturity investments consisting primarily of investment in government securities like Retail Treasury Bonds, DBP Tier-II and Agrarian Reform Bonds (Note 8). These are not subjected to mark-to-market valuation but impairment testing is being done on HTM in RTBs.

Total HTM investments at December 31, 2015 is P713,534,044 which is 58.32 per cent of the LIBI's total assets of P1,223,570,258. Liquid assets of P292,264,362 are 0.933 times the total liabilities of P313,322,227.

The table below summarizes the Maturity Profile of the Corporation's Assets, Liabilities and Capital.

	Up to 3 mos.	3 to 6 mos.	6 mos. to 1 year	More than 1 year	TOTAL
ASSETS					
Cash and cash equivalents	292,264,362	0	0	0	292,264,362
Foreign currency held for trading	527,689	0	0	0	527,689
Trade and other receivables	61,959,818	28,130,312	22,778,779	71,701,979	184,570,888
Other current assets	989,182	134,072	257,760	29,710	1,410,724
Property and equipment	379,018	0	58,725	20,957,805	21,395,548
Investment property	0	0	0	998,316	998,316
Investments-held-to-maturity	0	100,470,827	0	613,063,897	713,534,724
Other non-current assets	0	0	0	107,069	107,069
Deferred tax asset	3,243,971	0	0	5,516,967	8,760,938
Total Assets	359,364,040	128,735,211	23,095,264	712,375,743	1,223,570,258
LIABILITIES AND EQUITY					
Trade and other payables	121,209,151	43,960,975	48,706,686	76,768,234	290,645,046
Income tax payable	7,573,668	0	0	0	7,573,668
Other liabilities	7,372,821	5,051,431	2,679,261	0	15,103,513
Capital	16,951,144	21,018,052	34,231,990	838,046,845	910,248,031
Total Liabilities and Equity	153,106,784	70,030,458	85,617,937	914,815,079	1,223,570,258

Credit Risk

Insurance Division

a. Direct Credit Risk – is the risk that a customer or counterparty will be unable to pay obligations on time or in full as expected or previously contracted, subjecting LIBI to a financial loss. It lasts for the entire tenor and is set at full amount of a transaction. The possibility of non-collection of Accounts Receivable within one year is moderate due to intensified collection through faster sending of Statement of Accounts thru fax, email, mail and frequent follow-ups by phone. LIBI's collection rate of 85.00 per cent for the current year is 1.24 per cent lower than the 86.24 per cent collection rate last year. This was due to the outstanding unexpired premium collectible from Philippine Prudential Life Insurance Company, Inc. of P39,710,863.26. Reconciliation for the unexpired portion of the premium is still ongoing (Note 4).

The Management has negotiated with Land Bank of the Philippines for the advance payment of policies by the branches/lending units.

Forex Division

b. Counterparty Risk – is the risk that occurs from transactions where reciprocal obligations are made between LIBI and counterparties or customers.

- Pre-Settlement Risk - risk that LIBI-Forex's counterparty or customer defaults prior to settlement date of transaction and will be unable to fulfill the

transaction. LIBI would then be subjected to exposure equivalent to economic replacement cost for defaulted contract (a current market value) plus a potential increase in that cost due to future market fluctuation.

- Settlement Risk – occurs from simultaneous exchange of value with a customer or counterparty, where verification of payment from counterparty is not received until after LIBI-Forex's is already delivered. Should a non-delivery on the part of the counterparty occur, LIBI-Forex is exposed to direct credit risk.
- Clearing Risk – occurs from payments and transfer made on or behalf of the customers, where transfers are made prior to verification of reimbursement. Similar to settlement risk, LIBI-Forex is exposed to direct credit risk if customer fails to make reimbursement

Settlement and clearing risks are noteworthy in that these may be controlled by using operational or transactional methods such as delaying payment until receipt of funds is confirmed from the counterparties.

Compliance to Anti-Money Laundering Law and BSP regulations has to be conscientiously observed all throughout LIBI-Forex trading transactions. Trading personnel are encouraged to attend trainings/seminars for enhancement in trading skills and to keep abreast with new regulations (if any) from its regulatory body, the BSP.

25. COMMITMENT

LIBI has renewed its Full Service and Maintenance Agreement (FSMA) with FUJI XEROX Philippines, Inc. for another term of 48 months that commenced on December 04, 2013 and shall expire on December 04, 2017. New and upgraded equipment had been installed to replace the old model. The renewed FSMA contains same terms and conditions as with the previous one except for the following:

- a. Decrease in monthly rental of P800, from P12,000 to P11,200, and
- b. Decrease in charge per copy of P0.11, from P0.56 centavos to P0.45 centavos